Better Policies and International Governance

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1 Introduction[1]

The publication of the World Bank's 1997 World Development Report is a welcome event. As with preceding reports in this series, it is supported by an impressive amount of preparatory work and data, endowing it with a formidable aura of credibility. This does not simplify the task of commentary and critique. As most observers have noted, the Report signals a certain change in the so-called 'Washington consensus' regarding 'good policies', which has dominated the thinking and action of the World Bank as its profile in the developing world has increased over the past 15 years or so. After the 1981 Berg Report and the Long Term Perspective Study (World Bank 1981 and 1989) – which, in the case of sub-Saharan Africa, stigmatised the state as the principal culprit for the failures of development – one cannot but be impressed by the conceptual flexibility displayed by the Bank and by its expressed goal of carrying out its work more effectively, which it has always recommended to developing states. Though emphasising the patent failures of the overly statist policies adopted in the newly independent developing countries, the Bank implicitly recognises the excesses of its own past anti-state assumptions.

The Report recommends a two-part strategy. First of all, the state must concentrate its efforts on its traditional areas of competence and on feasible endeavours, while taking into account its resources and capabilities. When resources are limited, overly ambitious objectives can be counterproductive. Secondly, public institutions must be strengthened, precisely in order to increase the capabilities and efficiency of the state. This assessment is shared by that other Bretton Woods institution, the International Monetary Fund, as Tanzi (1997), among others, shows in his account of how conceptions of the state have varied in the course of history. WDR97 examines the basic functions of the state and the space it must cede to the market (first strategy), and the differing measures involved in the reinvigorating of institutions (second strategy). The latter includes the elaboration of effective rules, fighting corruption, greater competitive pressure, improved incentives for public agents, and

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increased participation on the part of the citizenry. The Report discusses the insertion of states in a globalised world, the emergence of international organisations and public goods, and the problems of international collective action, as well as factors behind the resistance to reforms. One positive innovation of the Report is the use it makes of recent analyses from the new political economy, the new institutional economics, and the political economy of reform. Previous analyses tended not to stray far from purely economic paradigms.

This article will discuss the principal themes of the Report but also point out some of its shortcomings. Such a critique, it is hoped, will aid the Bank in its future research on this vast subject, which could make an important contribution to its effectiveness. The article will proceed along two lines.

The first line of argument centres on the conceptions of the state, public administration, and structure of incentives contained in the Report. What the Report does not adequately integrate into its analysis is history, politics, and the unique 'path dependence' of states. The Report is constrained by the identity of its author and publisher – an international financial institution – and by an economistic approach based on a small number of universal and stylized facts. The character, positive or normative, of the undertaking remains ambiguous. Operating from a neoclassical perspective, the analysis does not take into account sufficiently the structures, mechanisms, micro-economic calculations and expectations forged over the long run in developing states, political rationalities, or, in consequence, the feasibility of reforms induced by external financial institutions such as the Bank. The notions of institution, governance, and corruption thus remain problematic. It is important, however, to understand these micro-economic factors, as they constitute an internal impediment to reform and underlie the uncertainty affecting new structures emerging from the ruins of previous rentier-type arrangements (the good as well as the bad: mafias, middlemen, lack of transparency in privatisations, decentralisation of corruption and its consequent aggravation, and so on).

The second line of argumentation concerns the credibility of international governance: the credibility of the Report's arguments in view of those on the minimal state promoted by the Bank not so long ago and whose consequences for the recipients were often far from positive, and the credibility of the Bank as an aid agency, given the constraints imposed by its mandate. The principal justification of multilateral institutions, and particularly those created at Bretton Woods, includes the furnishing of collective goods, providing information and credibility in international markets for states that lack them, and including these states in multilateral binding agreements (Rodrik 1996). This is the basis of conditionality. The extension of these instruments to domains that are increasingly structural and the process of globalisation cannot but pose problems for the credibility of these multilateral institutions (Dhonte 1997 for the IMF). One of the purposes of these international institutions is to act as agents of modernisation, to undermine both domestic rent-seeking and rentier activity issuing from the foreign policy interests of bilateral donors engaged in the pursuit of agendas different from those of the reform-minded multilaterals. These are external limits, concerning international agencies and efforts to improve developing states.

2 Developing States and Their Institutions

WDR97 abandons past prejudices about the excessive weight of the state and correctly emphasises the link between the growth of the state and level of development, which is clearly borne out in comparing the level of taxation in industrialised and developing countries. The excesses of the state are no longer regarded as the causal factor of underdevelopment. What is important is its quality, its 'style' (the 'developmental state', a familiar concept in the research of the IDS). A continuation of the animated debate over the East Asian Miracle (World Bank 1993) is observed here. Several observations will be offered on the nature of states and institutions that are characteristic of developing countries, particularly in Africa, and to which the Report could have accorded greater importance.

Credibility of states and consequences of personal rule

In a number of developing countries – and not only in the vicious circles of 'collapsed states', which are well covered in the Report – one major problem is that agents accord little credibility to the beneficial effects of the state. The manner in which they view the state, which is path dependent, differs from that prevailing in developed countries. One reason has to do with the personal nature of rule, which is not necessarily coupled with particular political regimes (democracies, military juntas) and is focused foremost on the short-run management of problems related to legitimacy and staying in power. A second reason is that the perception individuals have of the state is shaped by the behaviour of the bureaucrats who are supposed to represent public authority. But these bureaucrats themselves often have no conception of, or belief in, the general interest and use their positions within the state apparatus mainly as a source of personal enrichment (tax collectors, customs agents, etc.). The consequences for attempts to reform the state are structural and general.

The consequences of personal rule in weakly institutionalised states – which may nonetheless contain formally democratic institutions – and of the absence of autonomous institutions is that political leaders pursue particular micro-rationalities of leaders,[2] which are based above all on trying to stay in power. These rationalities lead to dependence of leaders on particular channels of information, whose content may be highly partial, and to dependence on the support of certain groups and organisms, most notably the security services, which results in decisions and in an overall conception of the state that is quite different from that of development agencies. The lack of information possessed by these rulers – preoccupied as they are by the immediate exigencies of staying in power – as to the changing nature of the world economy explains in part their attachment to the status quo and resistance to reforms. Behaviour based on purely local political considerations also leads to the systematic subversion of existing institutions – the interruption of electoral processes, the neutralisation of the opposition – if they constitute a threat to the leaders staying in power. The calculations of the executive are essentially based on short-term considerations about the risks of political liberalisation. Finally, to stay in power in the absence of institutions requires personal enrichment, in order, among other things, to purchase support. Civil service recruitment is often based on considerations (ethnicity, regionalism, etc.) that have little to do with good governance as conceived by international aid experts. The utilisation of public enterprises, of resources generated by trade policies, and choices regarding public investment also follow this logic. The paucity of resources consecrated to the functioning of state agencies, coupled with the vagueness of administrative tasks, leads to increasing bureaucratisation. The same calculations may be exhibited by public and private agents and at each institutional level (regulatory institutions, oversight of customs agencies, judiciaries, political parties, NGO's, etc.). There is no reason to assume that agents with oversight responsibilities do not participate in this system. This is indeed a cause of the failure of so many formal oversight mechanisms (inspection of customs procedures, computerisation). The discontinuity of decisions and lack of effective authority over state functionaries are thus major problems affecting states of this type and which hinder the implementation of reforms.

Constrained by an economic approach and by the official status of the World Bank, WDR97 displays a great difficulty in dealing with the purely political dimension of the state. The same is true of the Report's treatment of the genesis and ingredients of the developmental state. The Report lists a series of necessary institutional characteristics. These are, however, dealt with in a static manner, with little insight into dynamic trajectories, the development of content, and the orientation of institutions. Research has demonstrated that there is no single and necessary trait favourable to development: for example, authoritarian or democratic states, types of civil rights, modes of representation. It all depends on the content that is assigned to formal institutions: a dictator may be benevolent just as political pluralism may be the source of manipulation and instability, and longevity in power the source of credibility and predictability for private investment or, inversely, of slow economic decline. Cohesion may be brought about by an enlightened leadership with a vision motivated by nationalism or religion. WDR97 does not solve the difficulty of understanding the exact process that renders an institution efficient or not, which greatly varies according to the contexts, values, and collective objectives that determine the manner in which institutions are used. The Report at the end

[2] And not the state, as public choice theorists maintain.

implicitly recognises this in distinguishing regional agendas, trajectories, and problems of different states according to region (sub-Saharan Africa, East Asia, South Asia, etc.). These agendas are, however, dealt with schematically and the distinctions are not really introduced by the analyses that precede them. The concepts that are utilised do not allow for a better comprehension of the impetus behind long-term change, which requires changes in values and the endogenous ownership of formal rules (e.g., relating to altruism, the public interest, mechanisms of coordination).

The Report is aware that as soon as the issue of the state is broached, politics, opposition, and local resistance come into play. This represents progress in the conceptual apparatus of the World Bank. Despite the welcome integration of political economy into the Report, however, politics remains 'under-theorised.' The identification of existing power relationships, of winners and losers in the reform process and their respective strength, is limited to, for example, cursory remarks on pro- and anti-reform interest groups, and with the notion that appropriate incentives may influence their behaviour. But these interest groups are not always clearly distinguishable in developing countries, precisely due to lower levels of institutionalisation (Haggard and Webb 1993). Furthermore, these 'groups' do not always act on the basis of their 'interests', of which they do not have the same vision as the reformers, even if it is objectively advantageous to them, as electoral failures of technocratic governments in Africa have shown. Likewise, preference for the status quo may seem preferable to the uncertainty of reform (Fernandez and Rodrik 1991). The presence of lobbies is also a characteristic of developing countries. The question as to the content of these interests and the ingredients for good government – both historical and contextual – is not explored in the Report. The Report deals with the state in a globalised world but paradoxically has little to say about the global implications of the weakness of states, such as the issue of international corruption, the contagious effect of bad domestic policies, the maintenance of 'collapsed states' by markets or through international development aid (Jackson and Rosberg 1982; Reno 1995 on Sierra Leone), or on the upheaval that globalisation implies for the status of states (e.g. Evans 1997). This leads to reflection on the actual limits of multilateral mandates and their current instruments (or that of other agencies) in promoting internal 'institutional reinvigoration'.

In effect, the Report continues to define the state principally by the presence and capabilities of a series of institutions. But the state, as a political entity, cannot be reduced to the juxtaposition of institutions. In addition, these are relatively narrowly defined and centred on the supply of public goods: these institutions are essentially conceived as functional and technical (as with the 'tautological functionalism' of the new institutional economics, according to the expression of Toye 1995; Stein 1995). Consequently, one poses questions as to their content and evolution all through the Report, which does not make full use of the institutional theories and their research on the plurality of types of transactions, contracts, and exchange of property rights. The Report, in fact, gives the impression of being a theoretical compromise dominated by the macro-economic perspective of rational expectations, with the importance that this attaches to the notion of credibility. The Report only makes passing use of micro-economic theory that justifies state intervention on the grounds of market failure, of the imperfect and costly nature of information, and the uncertainty of agents. These concepts both validate intervention to reduce uncertainty and explain the failures of inopportune intervention (Stiglitz 1989). The state is not better informed than the market but, one may add, neither are aid agencies. This perspective, which accords importance to the micro-rationalities of private agents, is oddly absent, including when the Report analyses regulatory and industrial policy. In particular, private firms are dealt with rapidly, whereas their organisation (contracts) constitutes a response to market failures, which is complementary to the state. In slight contradiction with the critique at the beginning of the Report, regarding the excessive role that was previously assigned to the technocracy, this implicitly remains within the framework of a state-private sector discontinuity. Placed in the forefront are the capabilities of public institutions animated by 'technically capable' individuals chosen according to merit.

The most well-conceived modernising reforms may neglect market failures and missing markets, both of which characterise developing countries. Success may therefore be mixed for liberalising reforms, privatisations, and policies aimed at shifting functions from the state to the private sector. The reciprocal ties between the state and private sector and the short term expectations of the latter, which are under-analysed in the Report, determine, however, the capabilities of the state and the behaviour of administrations. The expectations of the private sector are linked to its characteristics and its organisation: for example, it is often small in size and the object of suspicion by governments (sub-Saharan Africa), driven by short-term financial considerations (Mexico, Thailand), or enmeshed in non-transparent relationships with politicians, which is precisely a characteristic of weakly institutionalised states. Even if it were to mean employing the notions of expectations and credibility, the Report could have taken them more seriously at the micro-economic level (that of agents and organisations). The reforms come up against the contradictory expectations of several actors: those of leaders, local private agents, external investors, and aid agencies. The credibility of the actions of each depends upon their past relationships and established reputations. The credibility of African states is thus negative.[3] Local expectations may neutralise reforms (e.g. with informalisation, windfall profits resulting from speculative activity, corrupting routines), just as may the poor timing of political and economic reforms (problem of time inconsistency, i.e., policy reversal after they have succeeded). This is the case for certain economies in transition in the former Soviet Union. In sub-Saharan Africa in particular, over the decades receiving aid and its repeated games, the geopolitical dimension of sanctions or the pursuit of loans creates rational expectations on the part of governments to postpone reforms.

The reinvigoration of institutions

The Report rightly shows that the weakness of public institutions is one of the central problems of developing states: absence of clearly defined rules, of agencies of restraint (such as conceptualised by Collier 1991), of a deficit of incentives, of accountability, and of transparency. Along with other international agencies (OECD, IMF), corruption is finally being taken seriously. This merits comment.

Rules and agencies of restraint. For an effective regulatory framework, restrictive rules are essential – and they should come with accountability and transparency. Though necessary, they are nonetheless not sufficient. Their formal existence, which is already appreciable, does not tell us about their quality or 'loyalty'. They must be 'owned', be the objects of adhesion. Problems subsist when the 'meta-rules', which enjoin respect of the rules, are not evident within the oversight agencies: such as central banks (for which autonomy is not sufficient, as WDR97 recognises), prudential rules, budgetary procedures, and surveillance of state-owned financial monopolies, and above all, fiscal and customs activities. As financial scandals in developed countries remind us, autonomy and *esprit de corps*, which are presented in the Report as elements of efficient administration, can even result in a lack of transparency and accountability.[4] An obvious reason is that those at the highest levels set the example to follow and their behaviour is naturally mimicked by state agents down the hierarchy. Another element concerns the mechanisms for enforcing contracts: weak states do not possess adequate instruments for dealing with opportunistic behaviour, or with important asymmetries in information that is characteristic of them. Retaining information can even represent a bonus for poorly remunerated bureaucrats. As the Report clearly recognises, decentralisation and the separation of powers, laudable as they may be, can in fact further contribute to the weakness of states, of corruption, and hamper oversight in contexts characterised by serious deficits in information (top-down and bottom-up) and in the ability to implement decisions. The enactment of new rules does not a priori constitute a better guarantee, with their efficiency depending upon initial conditions. The World Bank's recommendations here hits an obstacle, which is the political character of governments. As the Report admits, we do not know what it takes to produce the 'farsighted political leaders' that it recommends – leaders who are reform-minded and give their citizens a 'sense of owning the reforms',

[3] The weakness of investment in sub-Saharan Africa after 15 years of reforms can be explained not only by economic fundamentals but also by a particularly negative reputation with investors (Bhattacharya *et al.* 1996, Collier and Gunning 1997).

[4] A case in point is Credit Lyonnais's current $20 billion financial abyss, for which high level civil servants belonging to the same 'corps' bear responsibility.

while at the same time controlling and consolidating their states.[5] This leadership, however, appears to be the key; such understanding of it as we have comes from disciplines other than economics and political economy.

Competition and meritocracy. The necessity of competition is an excellent principle and is given a prime place in the Report. It is not only an issue for state-owned financial monopolies: the judiciary must also be a priority here. As Joseph Stiglitz (1997), among others has shown, appropriate incentives are essential for good government. For certain countries, however, the road is long and tortuous. Regimes based on personal rule, even when formally democratic, tend to adopt clientelistic practices in recruitment and the allocation of state contracts. The private sector, which is a source of competition, is diminished in importance, as is that of human capital. Vicious circles ensuing from macro-economic constraints (controlled wages, weak tax base) and distortions of educational systems lead to problems of policy coherence (priority given to primary education, but also to the flight of elites abroad or to the private sector). Drawing credibility from its status as an outsider and as a technical and apolitical public good, the Bank is not well equipped to introduce instruments that would modify these constraints and local political rationalities. The reinvigoration of technocrats is a good idea, but the latter are often neutralised in weak states as soon as they venture into politically sensitive areas. Conversely – and in a paradox well known by technocrats – they are obliged to become politicised in order to be effective, thus losing their credibility (Williamson 1994). The reinvigoration of technicians in the civil service is necessary, as they are often caught between the arbitrary behaviour of their political superiors and the 'community pressure' of their families and social networks, which are of vital importance in states lacking a social safety net. These were important factors in the development of states in East Asia, which the Bank fully recognises. However, the instruments utilised up to now – technical cooperation and foreign experts, internships abroad, administrative reorganisation, financial incentives – have had only mixed success in weak states. As the Report notes, external assistance and recurring obligations for meeting performance criteria of programmes have absorbed technical competence, which is already in short supply, and disturbed strategic policymaking capabilities. Instruments are lacking that could better identify and promote those who play the game, as it were, despite inherent limits with technocrats. In weak states, one solution resorted to by donors has been to multiply agencies of restraint and technical agencies located inside or parallel to the state administration. These have, however, often resulted less in competition than in disorganisation, to the detriment of their efficiency, ownership, and learning effects for other functionaries.

Corruption. Corruption is fittingly one of the main themes of the Report. Its real mechanisms, which are not analogous to those of the developed countries, are dealt with quickly, however, giving rise to incomplete analyses on the structure of incentives (in this case, levels of salary) and thus on appropriate measures to be taken. Contrary to what the Report suggests, corruption cannot be entirely reduced to the existence of individual opportunities and the absence of sanctions. If it is true that international financial institutions were able to go too far during the first generation of reforms in retaining only the macro-economic aggregates of the overall civil service wage bill, public agents in certain countries may be the most highly paid individuals in the workforce, and with low salaries not being the only instigation for corruption (Stasavage and Daubree 1997). Customs agents are one example here. The Bank itself has shown that, in certain African countries, civil service salaries are considerably higher than the average income and than the equivalent ratio in developed countries. The elaborate organisation of corruption, its eventual centralisation at high political and institutional levels – including in Africa, where it is superficially seen as being decentralised – its political dimension (purchase of support), and its setting of markups are present in many countries and complicate the taking of concrete measures to fight against it (as with the decentralised corruption in 'collapsed states'). As the Report emphasises, the link between corruption – the 'symptom of problems' – and the public and private environment involves an analysis of the plurality of causes, in particular of temporal horizons, the instability of the political and

[5] Singapore's Lee Kuan Yew is a classic example.

economic environment, and the absence of social protection that characterises many developing countries (Sindzingre 1997). The appropriate measures to be taken are likely to be different.

Civil society. The Report rightly recommends popular participation as an essential element of institutional efficiency. Forced passivity – and, for example, the quasi-official racketeering of the poor by functionaries – is a scandalous feature of many developing countries and with serious consequences for the costs of production and real income. If the Bank should be congratulated for stressing bottom-up approaches and the reduction of poverty, which is not always the priority of other bilateral donors, one should not have illusions over guarantees offered by this participation or these 'communities'. The associations in question do not necessarily incarnate the autonomous power of civil society, which they may claim to represent; they may be financed by the state, and so on. In contradiction with the objectives of democratisation, these associations may not be created as the result of a representative process. And in contradiction with the goal of strengthening the necessary functions of the state, they may contribute to weakening the latter by their multiplicity, fragmentation, and/or role as fronts for interest groups (thus the proliferation of parties in the states of sub-Saharan Africa following the end of single-party systems). Though aware of these difficulties, the Bank is not properly equipped in these types of states for making pertinent distinctions between local actors. This is a problem of moral hazard and adverse selection which affects the Bank as soon as it departs from its traditional financial activities in well-defined economic sectors, and from its role as a privileged creditor. As with regulations and oversight agencies mentioned above, the mechanisms and quality of monitoring in the area of participation are not easy to set in motion, neither for states, for the Bank, nor other donors. Moreover, and as with action related to the reinvigorating of the administration, the multiplicity of assistance agencies involved in civil society may, in itself, lead to distortions when, as is often the case, coherence and coordination are deficient. This excess of agencies, which is associated with the weakness of states, constitutes a more general risk for aid programmes.

3 The Constraints of International Governance

The international dimension

This is one of the Report's themes that could have been refined. Governments in fact possess complete information on the hierarchy of their own internal political priorities, are able to bargain geopolitically over the reforms, and with knowledge of the internal constraints of donors, e.g., those regarding the repayment of borrowed funds (Mosley *et al.* 1991; Mosley 1992; Martin 1991). As an international financial institution, the Bank is confronted with the limits of its current mandate: it cannot build local institutions – processes that are by definition endogenous to states and societies – for fear of undermining its credibility, its status as an international collective good, and its ability to tie the hands of specific states.

In effect, developing states may not need aid agencies if they are already viewed as credible on international markets and thus able to attract domestic or foreign private investment, as in East Asia; or they may be excessively dependent and lacking in credibility, as in sub-Saharan Africa (aid representing more than 12 per cent of GDP in 1994). In these two cases, whether it is a matter of the globalisation of markets that question the utility and viability of the Bretton Woods institutions, or the dependence on the public savings of developed countries, a reflection on the role and mandate of the Bank for these states cannot be avoided. This has become imperative given the increasingly vocal sectors of opinion within developed countries, most notably the USA, that are calling into question the Bretton Woods institutions by invoking the pre-eminence of the market. Though the stakes are high the Report nonetheless avoids this issue (despite an abundant literature, e.g., the internal reflection of the Bretton Woods Commission 1994; Richardson and Haralz 1995; Kapur *et al.* 1997). In the context of dependency, in particular, which is made up precisely of 'problem' states, the Bank cannot avoid the fact that it has become one of the principal internal actors. If it is true that the credibility of states is one element in their level of efficiency, then the credibility of the Bank is also one of its dimensions. It needs to reflect on this dilemma.

The problems of internal and multilateral credibility are played out on several complex levels.

Signals for reform coming from the outside may be interpreted in different ways: as irrelevant; as coercive and touching at the heart of the state (aid as a reward-sanction), and incurring the risk of diminishing the credibility of the government *vis-à-vis* its own citizens and private investors (Sindzingre 1996); as a substitute for local capabilities when there is no other choice;[6] or as a purchase of reforms by the donor, which can be reversed and put up for sale several times by the country as soon as it is able[7] (e.g., the repeated assessment of the public wage bill, the census of civil service staff levels which are immediately increased in size after initially being reduced). After decades of indifference on the part of the Bretton Woods agencies toward the character of the regimes in borrowing countries, the new themes and recommendations in the Report – including the fight against corruption and for democratisation, whose relationship with development has, in fact, not been demonstrated (Bratton and van de Walle 1997) – may be perceived by recipient states as not entirely credible. They may be interpreted as the current fashion, or the expression of the decline of the importance of these states following the end of the Cold War and the slashing of funds allocated to foreign aid in the budgets of developed countries. It is the well-known problem of the failure of conditionality (Killick 1996; Collier 1997): the limited credibility of multilateral agencies who have, after 15 years of programmes, not brought about any increase in the flow of private capital. Sometimes their programmes may even result in inverse signals – that the economies are in distress – or of a weak ownership of reforms originating from the outside. These are absorbed and 'digested', unless the signals are quite strong, disabuse expectations that the aid will always flow, and that precedence will always be accorded to local political priorities. External agencies, coming from the outside, cannot substitute for endogenous processes, nor give credibility to local governments and institutions that lack them, other than in the form of restraint. As soon as this restraint comes from the outside, however, it is filtered through local segmentations: reforms pushed by the Bretton Woods agencies, such as the fight against rent-seeking by the holders of power or against corruption, are greatly appreciated by the opposition, for example, from which ensues obvious problems *vis-à-vis* governments and the apolitical mandate of the Bank. This restraint is a necessary process but is not sufficient for improving the quality of a government's relationship with its citizens. External aid in the building of good government leads to dilemmas that are insufficiently analysed in the Report.

WDR97 could be clearer about its own status and potential capacity. In the first place, it could better present the hierarchical relationships and relations of causality between the different sectors analysed: the virtues of refusing a simple universal model and the abundance of facts render the understanding of it difficult (e.g. the existence of infrastructures, mentioned in passing in the Report, may be regarded as an essential determinant in the efficiency of institutions). Next, policy guidelines could have been better specified, even if this is not an easy task. Finally, it went only halfway, using academic research, whereas its author, the Bank, has powers and specific instruments (and limits) at its disposal. In summary, the Report is silent on the Bank itself. Moreover, it expresses both optimism and a realistic pessimism: with lucidity and finesse it indicates the elements of institutional change, but it continually emphasises that innovations will not be efficient without the prior existence of matching institutional capabilities. These are correct warnings but cannot escape tautology: states with better capabilities and commitment are in a better position to put in place efficient institutions and institution-intensive approaches. The reader is left wondering what concretely should be done with other states. For the latter, the Report endorses a 'lighter agenda for state action'. This is, however, what is really at stake: strong states are precisely less dependent on the Bank and its analyses. For weak states, the Report could have gone deeper into the possible signals of internal and external change, i.e., of aid programmes taking into account the current poor results: the possibility of inciting and sanctioning governments, given the mandate and instruments at

[6] See the Policy Framework Papers drafted in Washington, and other programmes.

Among the numerous countries here are the Côte d'Ivoire, which enjoys both multilateral and bilateral agreements, and Kenya, until a recent signal from the IMF in 1997.

the Bank's disposal. These points are avoided in the Report.[8]

The coherence of external agencies of restraint

It is important that external agencies have a better understanding of the limitations of states which are subject to personal rule. These states are themselves hostage to the weakness of their civil societies, to individual and/or corporatist calculations, and to the absence of the notion of the general interest, even if the leaders are personally committed to the reforms. External agencies must also be attentive to the disjuncture between the economic and political realms, to the difficulties that arise from sequencing, and to the rhythms and simultaneity of the two types of liberalisation – political and economic – specific to each state. One feature that may be noted in the Report is an evolution in the analysis in favour of gradualism. The economic and political credibility of powerholders is not identical, either for themselves or for private agents. Certain reforms may disturb different stages of the political liberalisation process or the electoral cycle. Many weak governments are characterised by short-term domestic exigencies – both political and economic – that are related to important asymmetries of information on their part. Creditor agencies often find themselves in contradiction with their objectives here, as well as with the objective of more local ownership of reforms: the urgency of financial deadlines and conditionality are often perceived as coercive, which is incompatible with the internalisation of reforms. As the Bretton Woods institutions, in fact, know full well and pragmatically demonstrate in the choice of countries they present as models,[9] resolving the problem of illegitimate governments does not involve formal democratisation as the first step, but rather long-term institutional consolidation. An important task is to encourage weak governments based on personal rule to focus on building durable political institutions and on assuring the insertion of their countries in the world economy – and for them to see this as being in their interest – rather than fixating on domestic political considerations related to problems of legitimacy.

4 Conclusion: a Renewed Reflection on Multilateralism

To be exploited in full, the insightful analyses of the Report must form the basis of a larger reflection on the role and room for manoeuvre of developing states in a globalised world, on the sectors that the latter impacts upon, and also on the leeway of multilateral organisations (as the 1997 economic crisis in East Asia shows). These analyses suggest an improvement of international coherence in a globaliszed world, which is, in principle, the focus of the Report. Globalisation is a risky process, generating reactive policies and political regression; states may remain on the sidelines or resort to 'exit options'. The current multilateral system, which is a public good but nonetheless subject to the influence of member countries, is an important dimension, and that could have been better dealt with in the Report; for the credibility and the operational prospects of the Report's recommendations are at stake. Conditionality has shown its limits. The new idea of selectivity – the Bank, in view of its scarce financial resources, has decided to lend only to countries that are 'good performers' – is a positive signal. Its uses and effects depend, however, – given the ambivalent effects of embargoes – on domestic institutions, regional balances of powers, and modes of insertion in the international system.

The analyses of the Report thus suggest a reflection on multilateralism and on the rules of multilateral institutions, since these constitute a global public good for internationalised markets and weak states lacking credibility: e.g., the reduction of uncertainty, production of information, global agencies of restraint for these markets and states, correction of negative externalities. The Report emphasises – though too briefly – the necessity of rethinking the effectiveness of aid; this issue could have been one of its main focuses. Bilateral aid has not helped states to implement good policies. This should not be surprising, given the role of aid in the foreign policy of donor states; but multilateral assistance has done no better (Burnside and Dollar 1997). The Report also underscores the importance of clear objectives and limits, in order that an institution

[8] The very fact, however, that territories can demand their recolonization (the Comoro island of Anjouan in 1997) – a surprising recognition of internal powerlessness – demonstrates, if need be, the stakes involved in the action of external entities.

[9] Ghana at one time, now Uganda, not to mention states whose democratic institutions leave much to be desired, such as China, which creates credibility problems for conditionalities that are applied to other countries.

(such as a central bank) may operate efficiently. The assistance of external agencies, in order to constitute an efficient and credible 'restraint', must follow the same principles and seek to minimise the risks of confusion induced by the differences in political culture, interests, and objectives of each actor.

This reflection on multilateralism has two dimensions. The first is to refine the reflection on the two types of credibility involved here: not only those of states, but also of multilaterals. The latter are caught between the exteriority of the multilateral mandate, which is a guarantee of their credibility, and the partial substitution for institutions in weak states, which leads to resistance and risks regarding the transparency and credibility of the mandate in question. The second dimension is to clarify the reflection on the actual multilateral character of these institutions: on the internal institutional level – for example, the internal rationality and performance criteria[10] at the Bank does not necessarily follow the same logic as the goals and mandate held up for outsiders, nor is it based on a deep knowledge of the countries in question; *vis-à-vis* other bilateral donors, who are member states of the Bank but have their own interests and influence in the international arena; and *vis-à-vis* developing countries, who are also member states. For the latter, an improved and more effective participation on their part in the international system, leading to more local ownership, is an important element for reflection on a theme such as the 'state in a changing world'.

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